



Please find below our weekly update covering themes that we feel that are of interest to investors and participants in the small and mid-cap TMT sector as well as commentary on recent newsflow. The cost of Allenby Capital's research on individual clients is paid for by our research clients.

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## **Allenby Capital TMT Update - 06.07.20 - ECSC.L, TWD.L, TRT.L**

### **ECSC Group plc\* (ECSC.L, 71.5p/£7.2m)**

#### **AGM update: Further growth in Managed Services (30.06.20)**

- New Managed Service contract of £190k over a three-year period. As anticipated, there has been a reduction in Consulting bookings since the start of April. However, there has been continued growth within the Managed Services recurring revenue. As a result, revenue has remained stable over the first five months compared with FY19.
- Achieved target of Adj. EBITDA break-even in May and this will be exceeded in June. Furloughed staff are also starting to return. Cash on June 26th was £1.37m, including £0.77m of short-term UK government CV-19 related delayed tax payments. There is also the £0.5m unutilised banking facility.
- Forecasts are currently under review.

**Allenby Capital comment:** Reassuring update from the UK's longest running full service cyber security provider with ECSC achieving its target of Adj. EBITDA break-even in May and moving into profit in June. Managed Service contracts provide the company with greater revenue visibility and are accretive to gross margin as utilisation of its UK and Australian SOCs increases. During H1, the company also launched the Nebula Cloud cyber security breach detection service that take ECSC's existing 24/7/365 managed service, that uses ECSC's proprietary Kepler AI technology, and introduces cloud-based service options. This increases ECSC's addressable market as it will offer a lower cost of entry and is designed to be sold via the indirect channel. Cyber security remains a core area of IT spend and ECSC is well positioned to capitalise.

*\* Allenby Capital acts as Nomad and Broker to ECSC Group plc*

### **Trackwise Designs plc (TWD.L, 90.5p/£20.0m)**

#### **Meeting with management: Encouraging progress with IHT (02.07.20)**

- Meeting with management on the back of the recent final results (23.06.20). Group revenue declined 16.2% to £2.9m but within this revenue in the newer Improved Harness Technology (IHT) division increased 55% to £0.9m whereas the traditional Radio Frequency (RF) business fell 31% to £2.0m. The change in the business mix resulted in a 760bps improvement in gross margin to 37.9%. Adj. EBITDA +7.8% to £0.7m and year end cash was £0.6m down £2.5m. Cash at the end of May was £3.2m plus £0.6m in unused bank facilities.
- IHT: Total IHT customers and opportunities more than doubled to 72 during the year with a significant expansion of sectors, including medical devices and electric vehicles, to complement the existing focus on aerospace. In August, TWD signed a collaboration agreement with GKN Aerospace for the industrialisation of GKN's Type 8 Ice protection

System. Post period end, TWD announced an order for the supply of high voltage battery module flex PCBs for a UK electric vehicle manufacturer. In medical, TWD has secured a number of device manufacturers including for long, thin, fine feature flex PCBs for catheters. These markets offer considerable growth potential.

- RF: Performance in the division was impacted by the trade tensions between China and the US, pressure from Huawei on TWD's customer base, concerns around Brexit for European customers and the slow progress of the merger between T-Mobile and Sprint in the US. On the plus side, H2 revenue was flat compared with H1 and the medium-term outlook for spend as operators invest in 5G is positive. New business has been signed in FY21 with Leonardo, Qualcomm and Kappa Sense.
- SCL: Stevenage Circuits Limited (SCL) was acquired in April for up to £2.5m with an associated fundraise of £5.9m. This has substantially increased technical and operational expertise and sales resource. SCL offers bespoke PCBs from rigid to multi-layer and flexi-rigid to short-flex, has a substantial customer base that TWD can sell in IHT products and significantly manufacturing capacity. This has enabled TWD to focus its existing Tewkesbury site on IHT production.

**Allenby Capital comment:** FY19 performance was in line with April's trading update with strong growth in the newer IHT division and more of a struggle in the traditional RF business. IHT presents major revenue growth opportunities, higher margins and a much less congested competitive environment. TRW's IHT offers significant advantages over existing technology (weight, performance, functionality) and it has removed any length restrictions and has patents granted in the UK, EU, US, China and Canada (Brazil pending) to protect its IP. The company has made good progress in aerospace but this tends to be a slower moving industry even before the impact of CV-19. As a result, expanding into other sectors offers shorter term growth. The SCL acquisition looks good value and strategically sensible and there are good cross-sell opportunities and wider PCB experience/expertise. Profit forecasts were nudged up on the back of the results and the company is trading on FY20 PER of 20.4x, falling to 12.4x in FY21.

### **Transense Technologies plc (TRT.L, 59.5p/£9.7m)**

#### **Meeting with management: Transformational transaction (29.06.20)**

- Meeting with management following the ten-year worldwide iTrack licence and the associated transfer of iTrack operational business and staff to ATMS Technology, a subsidiary of Bridgestone Corp (25.06.20).
- Transense receives c. \$1.0m in cash net (Transense has repaid the \$1.95m in Bridgestone loans) as well as a quarterly royalty payment based on the number of vehicles using the technology. The initial quarterly royalty is c. £0.15m. At the end of the licence period, ATMS will have an option to purchase the iTrack technology for a nominal sum.
- Transense had entered into an initial 18-month collaboration agreement with Bridgestone in August 2019 where Bridgestone could offer the iTrack system exclusively as a mining tyre monitoring for its off the road customers (OTR) (57 inch tyres and above). This was extended in February to February 2022.
- Bridgestone reported overwhelmingly positive customer response to the tyre platform and Bridgestone will expand its offering to additional OTR customers as its
- TRT has two continuing operations: SAWSense (sensor systems for measuring torque, temperature and pressure, wirelessly and without batteries); and Translogik (tyre test equipment).

**Allenby Capital comment:** The Bridgestone deal transforms Transense - substantially reduces the operating cost base, strengthens the balance sheet and provides a quarterly royalty revenue stream that has considerable scope for growth through Bridgestone as it transitions the customers of its own B-TAG product, that has c. 3x units deployed compared with iTrack, over to Transense and its much greater sales and marketing reach. There is scope for medium term growth for SAWSense particularly around the agreement with GE Aviation for its 900 engine and its expected adoption on the Improved Turbine Engine Programme to re-engine the US Army's Apache and Black Hawk helicopters.

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David Johnson is the author of this research recommendation. David Johnson is employed by Allenby Capital Limited as an Equity Analyst.

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